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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 003551

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SUBJECT: DEFENSE PROCUREMENT SPECIAL BUDGET: A PRIMER ON  
TAIWAN BUDGETS AND LEGISLATIVE PROCESS

REF: A. TAIPEI 0071

[B](#). TAIPEI 0118

[C](#). TAIPEI 1201

[D](#). TAIPEI 3489

Classified By: AIT Director Douglas H. Paal, Reason(s):

1.4 (B/D)

[1](#)1. (C) Summary. A reduced and reconfigured Defense Procurement Special Budget will be re-introduced in the regular Legislative Yuan (LY) session that begins September [1](#)3. The Presidential office informed AIT yesterday, August 24, that President Chen personally was responsible for the decision announced in the press to shift PAC-III missiles into the defense regular budget, thus reducing the Defense Procurement Special Budget from NTD 480 to 370 billion (USD 15 to 11.6), in order to facilitate passage by the LY. After being blocked in the LY Procedure Committee 26 times in the 2004-2005 LY sessions, there are scattered but inconclusive signs of a greater willingness by opposition Pan-Blue legislators to permit discussion of the Special Budget in the fall LY session. The fact that the legislative process requires consensus by the five LY political parties for swift consideration, however, means that the apparent continued opposition of the People First Party will make rough going for the Defense Special Budget this Fall. End Summary.

[1](#)2. (C) Taiwan's tripartite Defense Procurement Special Budget (P-3C surveillance aircraft, PAC-III missiles, and diesel electric submarines) was voted down twenty-six times in the 2004-2005 LY sessions. The initial Special Budget submission of USD 18 billion (NTD 601.8 billion) was reduced at the beginning of the second session in February to USD 15 billion (NTD 480 billion at changed exchange rate) and will be once again reduced to USD 11.6 billion (NTD 370 billion) in the fall LY session beginning September 13.

Making of a Special Budget

[1](#)3. (C) The Taiwan government claims it originally decided to put the tripartite weapons package into a "special budget" rather than into the regular budget for two reasons. First, the regular budget covers only a single fiscal year and cannot readily include long-term, multi-year procurements. Second, the amount of the tripartite weapons package would have exceeded the limit on central government budget deficit (expenditure minus revenue) of 15 percent in any fiscal year. Special Budgets are not subject to this limit. However, they are subject to the limit on total outstanding central government debt of 40 percent of average GNP over the preceding three years.

[1](#)4. (C) Special Budgets also require additional legislation authorizing the budget, making for a more complicated two-step legislative process. The Defense Special Budget package was split into two bills, a "Major Arms Procurement Statute" and a "Special Arms Procurement Budget." The Executive Yuan (EY), however, submitted both bills simultaneously rather than the usual consecutive submission, which gave the opposition Pan-Blue legislators one more reason to oppose the Defense Special Budget. Other reasons for opposition included claims of excessive weapons prices, opposition to one or more of the three weapons systems, and, later, anger at President Chen Shui-bian for criticizing the Lien-Soong Mainland China trips in April and May. Legislative Gauntlet

[1](#)5. (C) LY draft bills must go through the following two-committee, three-readings process:

(1) Submission: EY submits proposed bill to LY.

(2) Procedure Committee: Bill must be approved by a majority of the Procedure Committee, consisting of legislators from the five political parties in the LY, to be placed on the LY agenda.

(3) First Reading: Reading of the draft bill on the LY floor, after which the bill is referred to the relevant LY committee (or, if uncontroversial, directly to the Second Reading). In this full LY session, however, any of the five

party caucuses opposed to the bill can call for a prescribed four-month negotiation period, aptly termed "the freeze." The political parties theoretically have the same obstructive muscle in the Second and Third Readings, though this is less likely to occur so late in the legislative process. (Note: Conversely, NSC SecGen Chiou I-jen insisted to AIT that there is a way to force a floor vote if supporters of the bill can obtain the support of a simple majority of legislators and, thus, circumvent the four-month negotiation period. The government has never invoked this option, and AIT has not been able to verify the claim that this option exists with any LY member or staffer. End Note.)

(4) Specialized Committee: After hearings and testimony in the relevant LY functional committee -- the Defense Committee in the case of the Defense Special Budget -- draft bills must win approval of a simple majority of members. Some bills languish in committee through an entire three-year, six-session LY, after which they "automatically return to zero" (zidong guiling) and must be reintroduced from scratch by the EY in the next session.

(5) Second Reading: Second reading on the LY floor, followed by general discussion, then article-by-article discussion. Final revisions occur at this stage.

(6) Third Reading: Final reading and vote, followed by presidential promulgation.

16. (C) The four-month negotiation provision is tantamount to a requirement for unanimous approval by all party caucuses in order to avoid the long four-month "freeze" delay. The Defense Special Budget bills, however, never even made it out of the Procedure Committee and on to the LY floor in the fall and spring 2004-2005 LY sessions. In twenty-six weekly sessions, a simple majority of Pan-Blue-dominated Procedure Committee members voted against the Defense Special Budget bill, blocking it from entering the LY agenda for a first reading.

#### President Chen Modifies the Special Budget

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17. (C) Office of the President Senior Counselor Liu Shi-chung visited AIT on August 24 to inform the Deputy Director that President Chen personally decided to shift the PAC-III missiles from the Special Budget into the regular defense budget. This would, Liu explained, reduce the remaining Special Budget package for P3c's and electric diesel submarines from NTD 480 proposed in the spring LY session in February to 370 billion (USD 15 to 11.6 billion) in hopes that the lower amount would facilitate LY passage this fall. Liu pointed out that the preceding day, August 23, President Chen publicly invited new KMT Chairman Ma Ying-jeou to meet and discuss the Special Budget. Noting that Ma publicly rejected the invitation, the Deputy Director asked if there had been any private discussion with the KMT before the President publicly announced his invitation, to which Liu responded in the negative. The government, Liu explained, is most concerned about the stance of the PFP, which has been adamantly opposed to the Special Budget under the leadership of its Chairman, James Soong.

#### Once Again, Tantalizing Glimmers

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18. (C) The EY will re-submit the revised Defense Procurement Special Budget to the fall LY session opening September 13. There are scattered signs of more support, or at least reduced automatic opposition, from KMT legislators for moving the Special Budget out of the Procedure Committee on to the LY floor. KMT's LY Speaker Wang Jin-pyng and Policy Committee Director Tseng Yung-chuan have both publicly responded positively to reports of the Defense Special Budget revision, promising that the KMT would now be willing to at least discuss the proposal which, presumably, means passage by the Procedure Committee and placement on the LY agenda. New KMT Chairman Ma Ying-jeou could also play a role in this process; close advisor and KMT legislator Lai Shi-pao stated on August 21 that Ma will support the Special Budget, but at a lower level of funding -- though Lai did not clarify how low, nor what a Special Budget package that Ma might support would look like. Even PFP legislator Lin Yu-fang, a self-described defense expert who has been a mainstay of the PFP opposition over the past two sessions, announced that he now supports moving the two Special Budget bills out of the Procedure Committee into the Defense Committee for discussion. Whether other PFP legislators will follow Lin's lead remains to be seen.

#### Long and Winding LY Road

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19. (C) The Defense Procurement Special Budget has been through the following four and a half year odyssey:

-- April 2001: USG informs Taiwan MND of Bush Administration approval of the sale of major defense systems with an estimated value of USD 20-30 billion (NTD 680 billion - 1 trillion).

-- May 2001: MND submits 20-year, USD 20 billion procurement plan to LY, including Kidd-class destroyers, diesel electric submarines, P-3C Patrol Aircraft, Apache Attack Helicopters, and M-109 A-6 Self-Propelled Artillery. LY passes resolution demanding U.S. allow state-owned China Shipbuilding to participate in production of submarines.

-- Autumn 2002: In response to Taiwan MND,s inability to prioritize among the April 2001 items approved for sale, DOD conducts assessment of Taiwan defense priorities, concludes most urgent items are C4ISR, anti-air and anti-submarine capabilities.

-- January 2003: Executive Yuan (EY) creates task force to promote domestic production of diesel.

-- June 2003: LY approves budget for purchase of four Kidd-class destroyers with enhanced anti-air capability; opposition parties force 15% budget reduction.

-- July 2003: NSC SecGen Chiou I-jen informs USG of plan to fund the three priority procurement programs (PAC-III, P-3Cs, and diesel electric submarines) via NTD 510 billion (USD 15 billion) special budget.

-- August 2003: MND Minister Tang Yiao-ming publicly announces plan to fund purchase of PAC-IIIs, P-3Cs, and diesel electric submarines via a special budget. Separately, EY submits funding request to LY for the C4ISR program via regular defense budget process.

-- March 2004: Non-binding referendum on accelerating procurement of anti-missile systems fails LY passage; opposition parties later cite result to demand the government scrap plans to procure PAC-III missiles.

-- March 2004: DOD announces sale of early warning radar (EWR) to Taiwan at USD 1.8 billion.

-- May 2004: President Chen Shui-bian appoints CGS Chief Lee Jye Minister of National Defense; Lee immediately approves Special Budget proposal and forwards to EY.

-- June 2004: EY Approves Special Budget proposal of NTD 610.8 billion (USD 18 billion). LY President Wang Jin-pyng leads delegation of LY Defense Committee members to the U.S. to inspect systems included in Special Defense Budget package. Taiwan MND requests the USG cite a lower price for construction of the eight diesel submarines to address LY complaints over high cost of program.

-- August 2004: MND announces it will not insist on building submarines in Taiwan in order to reduce the overall cost of the diesel submarine program.

-- September 2004: EY submits Special Defense Procurement Budget to LY. Premier Yu Shyi-kun and MND Minister Lee Jye defend budget plan during full session of the LY; Pan-Blue activists stage anti-defense procurement rally in Taipei. MND Minister Lee Jye tells LY Defense Committee he will resign if Special Defense Procurement Budget is rejected.

-- November 2004: LY Procedure Committee rejects consideration of the Special Defense Procurement Budget, forcing delay in LY review until after December 11, 2004 legislative elections.

-- January 2005: LY Procedure Committee votes down Special Defense Procurement Budget in its final meeting.

-- February 2005: MND announces it will reduce the funding amount for the Special Defense Procurement Budget to NTD 480 billion (USD 15.5 billion) in order to meet opposition demands for a price cut.

-- March 2005: EY approves revised MND,s revised package and resubmits budget to the new LY session.

-- March-May 2005: LY Procedure Committee vetoes the Special Budget bill each Tuesday through the end of the session in late May.

-- May 2005: PFP announces it will not cooperate absent an apology from President Chen for alleging PFP Chairman Soong met with Taiwan Affairs Office Director Chen Yunlin in the U.S.  
PAAL